

FLAG RESOURCES

ANNUAL GENERAL MEETING

December 28th, 1995

1995

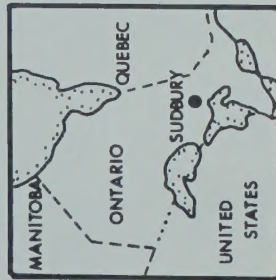
SYMBOL: FGR.A

LISTED: THE ALBERTA STOCK EXCHANGE

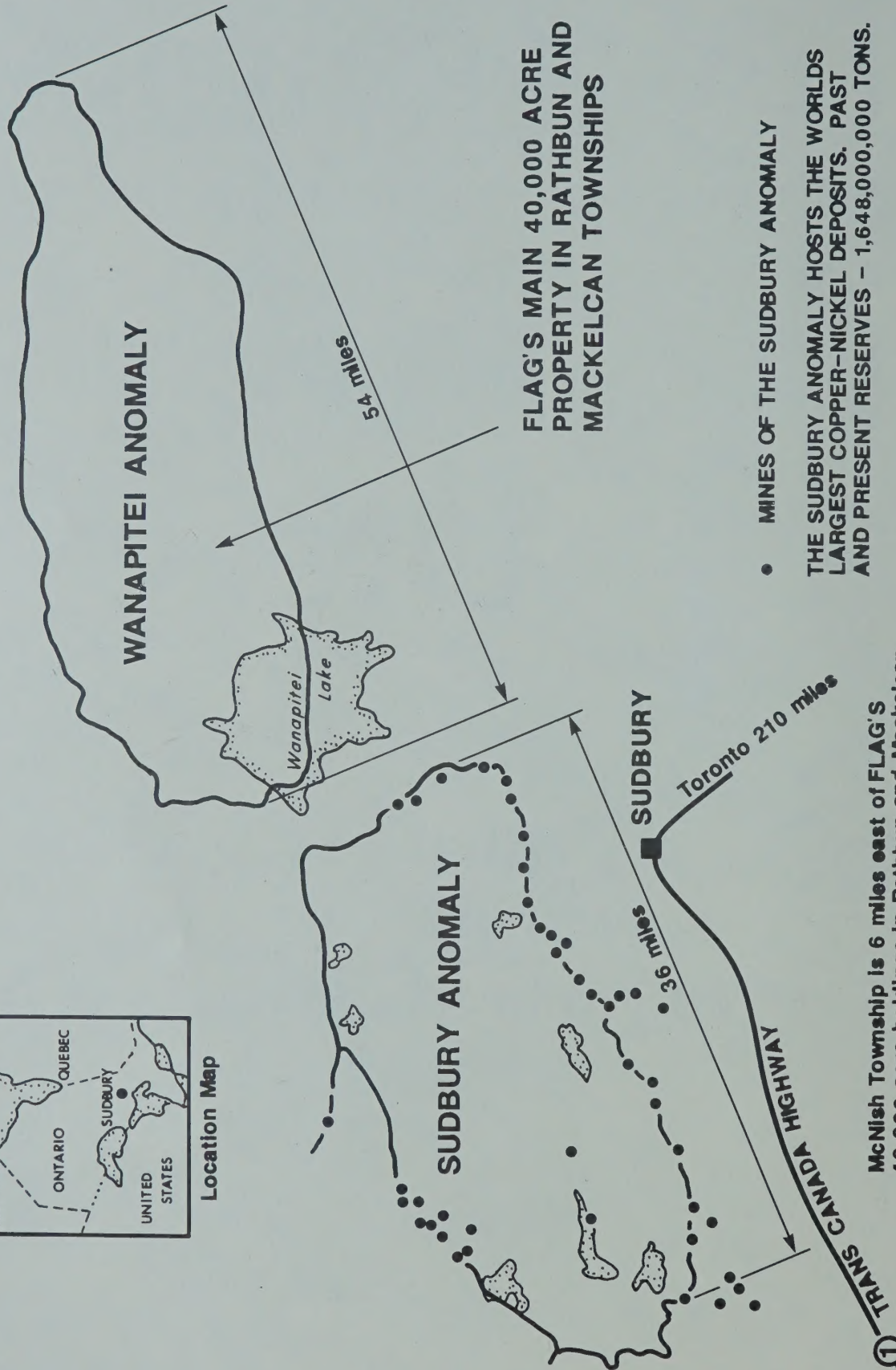
CALGARY, ALBERTA, CANADA

The Sudbury and Wanapitei Anomalies

Sudbury Ontario, Canada.



Location Map



FLAG'S MAIN 40,000 ACRE
PROPERTY IN RATHBUN AND
MACKELCAN TOWNSHIPS

MINES OF THE SUDBURY ANOMALY

THE SUDBURY ANOMALY HOSTS THE WORLDS
LARGEST COPPER-NICKEL DEPOSITS. PAST
AND PRESENT RESERVES - 1,648,000,000 TONS.

McNish Township is 6 miles east of FLAG'S
40,000 acre holdings in Rathbun and Mackelcan
Townships. Please refer to other map for more detail.

DIRECTORS REPORT

Dear Shareholder:

1995 may be remembered as the year of discovery for **FLAG**, in its exploration of the *Wanapitei Anomaly*, Sudbury, Ontario.

FLAG acquired large holdings in the 54 mile long *Wanapitei Anomaly*, because it is a geological structure which may contain major accumulations of mineral wealth.

It is the adjoining twin magnetic and gravity anomaly to the 36 mile long *Sudbury Anomaly*, producer of 900 million tons of nickel-copper ore, valued at one hundred and twelve billion dollars, and still counting.

About one billion, eight hundred and fifty million years ago, a major cataclysmic explosion fractured the earth's crust, causing *magma, mafic and ultramafic igneous rock* to escape from deep within the earth's crust, thrusting up through the rock stratas, to form the **Sudbury Igneous Complex**, a layered igneous intrusion, which is the host to the large nickel-copper deposits of the *Sudbury Anomaly*.

From 1990 to 1995, **FLAG** explored the *Wanapitei Anomaly* for a similar igneous intrusive complex. **FLAG** may have found it, this year, in *McNish Township*.

Less than 200 feet from the surface, **FLAG** has found the first mafic gabbro rock and adjoining ultramafic rock to be discovered in the *Wanapitei Anomaly*, in an area of extensive surface mineralization. *Analysis of the mafic gabbro rock revealed it was a magma contaminated with silica rich crust, which is also a unique feature of the **Sudbury Igneous Complex**, in the adjoining *Sudbury Anomaly*.*

FLAG is preparing to test the mineral potential of this igneous intrusive complex by drilling an exploratory hole into the ultramafic rock.

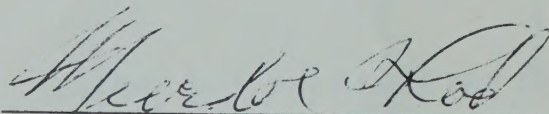
Utilising a larger drill, FLAG proposes to deepen its *Matagamasi Lake* drill hole, eight miles west of *McNish Township*, in *Rathbun Township*, from 2500 to 4000 feet.

It is one of two drill holes, *two miles apart*, to intersect nickel-copper mineralization, in sedimentary rock, to completion depth of 2500 feet. FLAG believes the source of the mineralization may be an *igneous rock mass in contact with sedimentary rock*. If the two drill holes share a common mineral source, the potential exists for the discovery of a very large mineral deposit.

Wanapitei Provincial Park

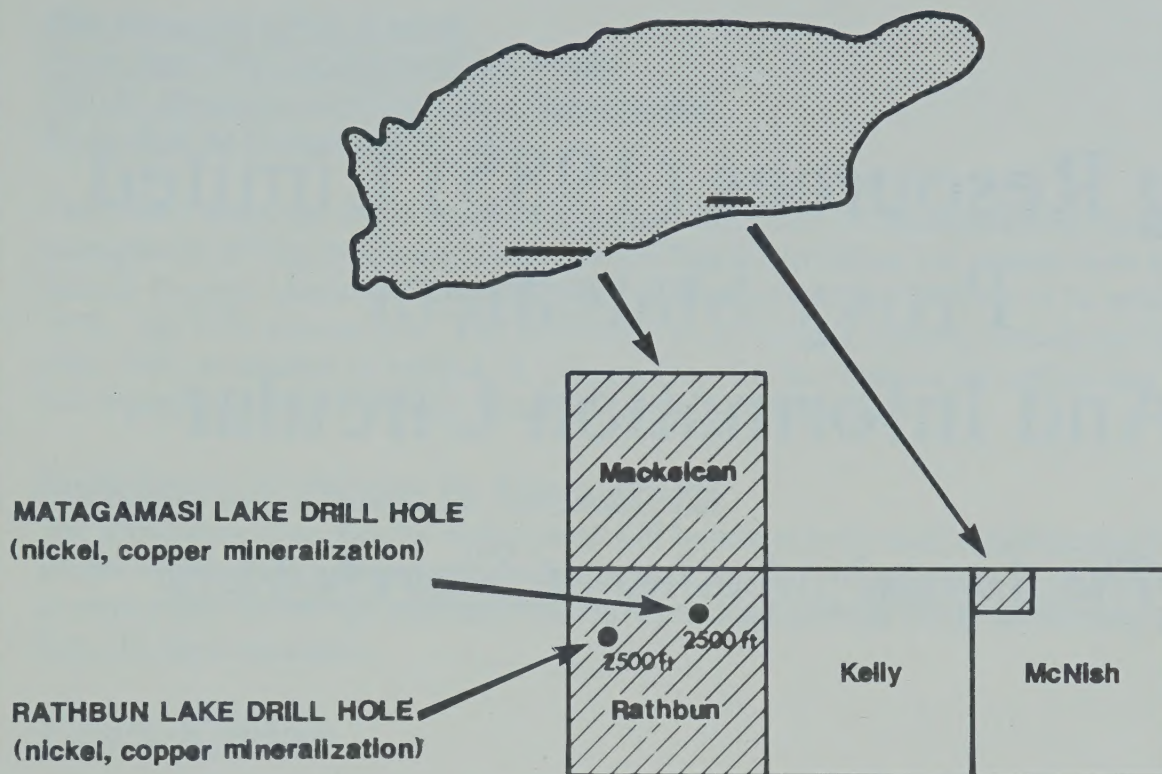
Negotiations are still proceeding on the proposed changes to the boundaries of the *Wanapitei Provincial Park*, located north of Sudbury, Ontario. The proposed changes would remove from the Park, an *undeveloped high grade gold prospect*, in which FLAG has expressed a serious interest. The Park would be extended to the Northeast, including acreage assigned by FLAG.

ON BEHALF OF THE BOARD OF DIRECTORS,



MURDO C. MCLEOD
PRESIDENT
FLAG RESOURCES
CALGARY, CANADA

Wanapitei Anomaly

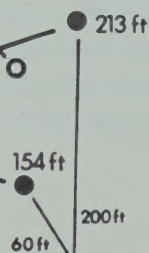
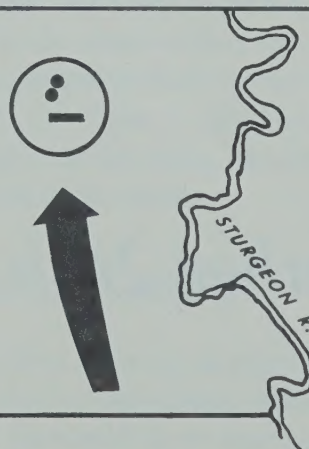


McNish Township

NEW DRILL HOLE LOCATION

1972 DRILL HOLES

Both drill holes in ultra mafic rock occurrences at completion depth.



MAFIC GABBRO DYKE DISCOVERY 1995 AND LOCATION OF OF ULTRA MAFIC ROCK.

Mafic Gabbro Dyke

Flag Resources (1985) Limited
Proxy Statement
And Information Circular

For The Annual Meeting of Shareholders

To be held on

December 28th, 1995

Flag Resources (1985) Limited
Proxy Statement and Information Circular
For the Annual General Meeting of Shareholders
To be Held on December 28th, 1995

This Proxy Statement and Information Circular is furnished in connection with the solicitation of management of Flag Resources (1985) Limited (the "Corporation") of proxies to be used at the Annual General Meeting of Shareholders (the "Meeting") of the Company to be held at Suite 1970 - 540 Fifth Avenue S.W., The Aquitaine Tower, Calgary, Alberta, Canada on December 28th, 1995, at the hour of 10:00 A.M. Calgary Time for the purposes set forth in the accompanying Notice of Annual General Meeting of Shareholders.

Solicitation of Proxies by Management

The solicitation of proxies by management will be primarily by mail, supplemented by telephone, telegraph and personal contact by directors and officers of the Corporation. All costs in connection with the solicitation of proxies by management for use at the Meeting will be borne by the Corporation.

Voting of Shares

Those persons entitled to attend and vote at the Meeting or to be represented thereat by proxy are those holders of Class A common shares of record at the close of business on November 23rd, 1995, being the record date for the Meeting; provided that, to the extent that a shareholder transfers the ownership of any of his shares after the record date and the transferee of those shares establishes that he owns such shares and demands not later than ten days before the Meeting that his name be included in the shareholders list, such transferee is entitled to vote on a ballot at the Meeting. Each Class A common share carries the right to one vote on a ballot at the Meeting. There are currently 10,023,886 Class A common shares issued and outstanding. A quorum for the meeting is persons present not being less than two in number and representing not less than 5% of the shares entitled to be voted.

Appointment and Revocation of Proxies

The persons named in the enclosed form of proxy to represent the shareholders are directors or officers of the Corporation. A shareholder submitting a form of proxy has the right to appoint a person or persons, who need not be shareholders, to represent him at the Meeting other than the persons designated by management as the proposed proxyholders in the form of proxy furnished by the Corporation. Such right may be exercised by crossing out the names of management's proposed proxyholders and legibly inserting the name of the shareholder's nominee(s) in the blank space(s) provided for that purpose in the form of proxy, or by completing another proxy in proper form.

*To be voted at the Meeting or any adjournment thereof, a proxy must be received by **Montreal Trust Company**, Suite 600-530-8th Avenue S.W., Calgary, Alberta T2P 3S8, prior to 10:00 A.M. (Calgary Time) December 27th, 1995.*

In addition to any other manner permitted by law, a shareholder who has given a proxy may revoke it, as to any matter on which a vote has not already been cast, pursuant to the authority conferred by it, by instrument in writing, executed by the shareholder or by his attorney in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorised, and deposited at the registered office of the Corporation, at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof, or with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof.

Voting of Proxies

The persons named in the enclosed form of proxy will, if the form of proxy is duly completed and deposited on a timely basis, vote all Class A common shares in respect of which they are appointed to act on any ballot that may be called for, and they will vote such Class A common shares in accordance with any specification made therein. In the absence of any such specification by a shareholder, the persons named in the enclosed form of proxy will vote the Class A common shares in respect of which they are appointed to act in favour of the ordinary resolutions as set forth herein.

The enclosed form of proxy, when duly completed and deposited, confers discretionary authority upon the persons named therein with respect to amendments to the matters identified in the Notice of Annual Meeting for which the proxy is solicited and with respect to any other matters which may properly come before the Meeting.

Management does not know of any matters to come before the Meeting other than the matters referred to in the Notice. In respect of any amendments to the matters identified in the Notice of Annual Meeting, the persons named in the proxies solicited by management for use at the Meeting will vote on such matters in their discretion.

Voting Shares and Principal Holders Thereof

To the knowledge of the directors and senior officers of the Corporation, no person or company beneficially owns, directly or indirectly, or exercises control or direction over, as of December 31, 1994, shares carrying more than 10% of the voting rights attached to the Class A common shares except the following:

<u>NAME</u>	<u>NUMBER OF VOTING SHARES</u>	<u>PERCENTAGE OF SHARES OUTSTANDING</u>
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<u>Golden Briar Mines Limited</u>	1,299,425 common shares	12.96 %
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<u>Cooksville Steel Limited (1)</u> Mississauga, Ontario	1,035,737 common shares (2)	10.33 %
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Notes:

1. The following are those persons or companies who own beneficially, directly or indirectly, and of record, 10% or more of the voting securities of Cooksville Steel Limited. (Mr. Sidney Miszczuk/Mrs. Antonio Miszczuk Graham).

2. See "Convertible Debenture"

Interest Of Insiders To Be Acted Upon

There are no material interest, direct or indirect, of directors or senior officers of the Corporation, any shareholder who beneficially owns more than 10% of the Class A common shares of the Company, or any known associated or affiliated of these persons in any proposed transaction which has material affected or would materially affect the Corporation except as described under "Convertible Debentures".

Interest of Insiders in Material Transactions

There were no material interests, direct or indirect, of directors and senior officers of the Corporation, nominees for director, any Shareholder who beneficially owns more than 10% of the shares of the Corporation, or any known associate or affiliate of these persons in any transaction since the commencement of the Corporation's last completed fiscal year and in any proposed transaction which as materially affected or would materially affect the Corporation other than as disclosed herein and the following;

Statement of Executive Compensation

The following table sets forth the aggregate remuneration paid by the Corporation to the executive officers of the Corporation for services rendered during the fiscal year ended December 31, 1994. Stock Options are options to purchase Class A common shares of the Corporation.

Nature of Remuneration

	<u>Cash</u>	<u>Stock Options</u>	<u>Other</u>
<u>Senior Officer and Directors</u>		(1)	nil(5)
(Number 1)	\$86,304.00		
<u>Directors</u>			
(Number 7)	nil (3)	(1)	nil(2)

(1) The executive officer and certain directors have outstanding stock options as follows, as at Dec.31.94.

<i>Date granted</i>	<i>Expiry date</i>	<i>Granted to</i>	<i>Number of Shares</i>	<i>Option price per share</i>
Aug.1.90	Jul.12.95	Director	25,000	\$0.30
Aug.1.90	Jul.12.95	Director	10,000	\$0.30
Aug.1.90	Jul.12.95	Director	10,000	\$0.30
Oct.1.92	Oct.1.95	Director	35,000	\$0.60
Feb.25.94	Apr.13.96	Director	75,000	\$0.60
Dec.17.93	Dec.17.95	Directors	180,000	\$1.00
Nov.28.94	Nov.28.96	Director	50,000	\$0.60
Dec.16.94	Dec.16.96	Director	50,000	\$0.60
Dec.16.94	Dec.16.96	Director	125,000	\$0.60
(Total)			560,000	

(2) There are warrants outstanding, to a director, to purchase 168,500 shares.

(3) The aggregate value of other compensation paid by the Corporation and its subsidiaries to the executive officer of the Corporation does not exceed the lesser of \$10,000 times the number of executive officers and 10% of the aggregate cash compensation paid as set forth under "Cash".

(4) The directors are reimbursed for out-of-pocket expenses incurred in carrying out their duties.

(5) The President of the Corporation has a management contract with the Corporation, receiving \$500 weekly. In addition, the President, Murdo Campbell McLeod, has a consulting contract with the Corporation, pursuant to which he receives \$300 per day when engaged in supervision of active exploration.

Certificate

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

The contents and sending of the Information Circular have been approved by the directors of the Company

A handwritten signature in dark ink, appearing to read 'Murdo C. McLeod', is written over a horizontal line.

MURDO C. MCLEOD

CHIEF EXECUTIVE OFFICER

Dated at Calgary, Alberta, Canada on November 23rd, 1995

Election of Directors

It is proposed that seven (7) directors be elected at the Meeting to hold office until the next Annual General Meeting or until their successors are elected or appointed. There are currently seven (7) directors.

It is the intention of management to vote proxies in favour of the election of Murdo Campbell McLeod, Sidney Miszczuk, William A. A. Breukelman, John W. Strath., Murdo Duncan McLeod, Richard D. Dye Sr. and Walter Copp.

The following are the names and municipalities of residence of the persons nominated as directors of the Corporation, their positions and offices with the Company and their principal occupations during the last five years. All directors will remain in office until the next Annual General Meeting or until their successors are elected or appointed.

Names and Municipalities of residence of the persons nominated as directors, their positions and offices with the company, their principal occupations during the last five years, and number of shares beneficially owned:

Sidney Miszczuk, Toronto, Ontario, Canada. *Office Held:* Chairman; director since 1980. *Principal Occupation and Positions during the last five years:* President of Cooksville Steel Limited. *Number of shares beneficially owned directly or indirectly:* 1,035,737 (5)(7)

Murdo Campbell McLeod, Calgary, Alberta, Canada. *Office Held:* President; director since 1976. *Principal Occupation and Positions During the Last Five Years:* President of the Corporation and of Golden Briar Mines Limited. *Number of Shares beneficially owned directly or indirectly:* 617,180 (1)(2)

Murdo Duncan McLeod, Calgary, Alberta, Canada. *Office Held:* Secretary-Treasurer, originally a director since 1978. *Principal Occupation and Positions During the Last Five Years:* Administrative Officer. *Number of shares beneficially owned directly or indirectly:* 400 (1) (6)

William A.A. Breukelman, Toronto, Ontario, Canada. *Office Held:* director since 1976. *Principal Occupation and Positions During The Last Five Years:* Past Chairman, IMAX Corporation, a large screen ultra fidelity motion picture corporation. *Number of Shares Beneficially owned Directly or indirectly:* 68,750 (3)

John W. Strath, Ottawa, Ontario, Canada. *Office Held:* Director since 1981. *Principal Occupation and Positions During the Last Five Years:* Business Executive. *Number of Shares Beneficially Owned Directly or Indirectly:* 36,450 (4)

Walter Copp, Winnipeg, Manitoba, Canada. *Office Held:* Director. *Principal Occupation and Positions during the Last Five Years:* Retail Merchant and Professional Investor. *Number of Shares Beneficially Owned Directly or Indirectly:* 160,606.(8)

Richard Dye Sr., Montpelier, Ohio, USA. *Office held:* Director since 1994. *Principal Occupation and Positions during the Last Five Years:* Manufacturer. *Number of Shares Beneficially Owned Directly or Indirectly:* 286,000 (9)

(1) Member of audit committee

(2) Murdo C. McLeod has an option to acquire 480,000 Class A common shares.

(3) William A. A. Breukelman has an option to acquire 10,000 Class A common shares, and holds warrants to purchase 168,500 Class A common shares.

(4) John W. Strath has options to acquire 60,000 Class A common shares.

(5) See "Convertible Debentures".

(6) Murdo Duncan McLeod has options to acquire 60,000 Class A common shares

(7) Held by Cooksville Steel Limited. See "Voting Shares and Principal Holders Thereof" and "Convertible Debentures". Sidney Miszczuk has an option to acquire 50,000 Class A Common Shares

(8) Walter Copp has an option to acquire 25,000 Class A Common Shares (9) Richard Dye Sr. has an option to acquire 25,000 Class A Common Shares" *The Information as to shares beneficially owned, directly or indirectly, or over which control is exercised is based upon information furnished to the Company by the respective nominees.*

Special Resolution and Ordinary Resolutions

Special resolutions must be passed by a majority of not less than two-thirds of the votes cast by the Shareholders who vote in person or by proxy in respect of the resolution.

Ordinary Resolutions must be passed by a majority of the votes cast by the Shareholders who vote in person or by proxy in respect of the Resolution

Shareholders who do not vote upon a resolution in person or by proxy will therefore not be counted in the above determinations.

Appointment of Auditors

Unless otherwise directed, it is management's intention to vote proxies in favour of an ordinary resolution to reappoint **Garrett Power**, Chartered Accountants, Calgary, Alberta, to serve as the auditors of the Company until the next Annual General Meeting and to authorise the directors to fix their remuneration. Garrett Power have been the Company's auditors since 1991.

Convertible Debentures

An unsecured debenture in the principal amount of \$815,000.00 issued in July, 1988, to Cooksville Steel Limited, with \$715,000.00 of the debenture convertible to Class A common shares at any time prior to July 31, 1995 at \$0.40 per share. The debenture was payable on July 31, 1993 with interest at 14% per annum and the first payment of principle was due January 31, 1990. The debenture was granted in consideration of cash advances to the Corporation.

Other Matters

Management knows of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Annual General Meeting. However, if any other matter properly comes before the meeting, the accompanying proxy will be voted on such matter in accordance with the best judgement of the person or persons voting the proxy.

FLAG RESOURCES (1985) LIMITED

To non - registered shareholders:

National Policy Statement No.41/shareholder Communication provides beneficial shareholders with the opportunity to elect to have their name added to an issuer's supplemental mailing list in order to receive interim financial statements of Flag Resources (1985) Limited. If you are interested in receiving such statements or other selective shareholder information and communications, please remove from booklet and complete and return this form in the envelope provided to:

MONTREAL TRUST COMPANY
600-530-8th Avenue S.W.
Calgary, Alberta, Canada
T2P 3S8
Attention: Carol Kinmond

YOUR NAME: (please print) _____

YOUR ADDRESS: _____

Postal/Zip Code: _____

**I CERTIFY THAT I AM A BENEFICIAL SHAREHOLDER OF FLAG
RESOURCES (1985) LIMITED:**

Date: _____

Signature: _____

**Flag Resources (1985) Limited/
Les Ressources Flag (1985) Ltee**

Annual Accounts

December 31, 1994

GARRETT POWER CHARTERED ACCOUNTANTS

June 13, 1995

Auditors' Report

To the Shareholders of Flag Resources (1985) Limited/
Les Ressources Flag (1985) Ltee

We have audited the balance sheets of Flag Resources (1985) Limited/Les Ressources Flag (1985) Ltee as at December 31, 1994 and 1993 and the statements of preproduction costs, operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Calgary, Alberta

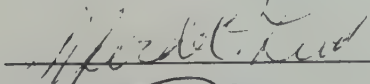
Flag Resources (1985) Limited/ Les Ressources Flag (1985) Ltee

Balance Sheet

	December 31	
Assets	1994	1993
Current assets:		
Cash	\$ 15,865	\$ 343
Accounts receivable	34,563	-
Due from director	-	36,406
	<u>50,428</u>	<u>36,749</u>
Investment in related companies (Note 3(a))	78,056	28,067
Advances to a related company (Note 3(b))	94,287	228,031
Fixed assets, at cost net of accumulated depreciation of \$22,099 (1993 - \$21,124)	1,513	1,887
Mineral interests (Note 4):		
Acquisition costs	1	2,224,929
Exploration and development	510,184	2,305,934
	<u>510,185</u>	<u>4,530,863</u>
	<u>\$ 734,469</u>	<u>\$ 4,825,597</u>
Liabilities and Capital Deficiency		
Current liabilities:		
Bank loan (Note 5)	\$ 5,390	\$ 7,756
Accounts payable	100,712	98,814
Obligation to issue shares	5,000	-
Loans payable (Note 6)	35,000	35,000
Due to shareholders (Note 8(a))	34,563	-
Due to director	15,794	-
	<u>196,459</u>	<u>141,570</u>
Due to Cooksville Steel Limited (Notes 7 and 9)	2,752,727	2,499,520
Deferred income taxes	197,713	120,325
Capital deficiency:		
Share capital (Note 8)	6,144,614	5,854,525
Deficit	(8,557,044)	(3,790,343)
	<u>(2,412,430)</u>	<u>2,064,182</u>
	<u>\$ 734,469</u>	<u>\$ 4,825,597</u>

Contingencies (Notes 1 and 4)

Approved By The Board:

 , Director

 , Director

**Flag Resources (1985) Limited/
Les Ressources Flag (1985) Ltee**

Statement of Preproduction Costs

	Year Ended December 31	
	<u>1994</u>	<u>1993</u>
Costs:		
Advertising and promotion	\$ 6,094	\$ 2,592
Automobile	687	2,420
Depreciation	975	975
Interest and bank charges –		
Current	1,337	1,680
Long-term	258,389	221,355
Management fees	34,104	30,315
Miscellaneous	1,045	1,400
Office, postage and stationery	6,049	5,313
Professional fees	14,140	23,417
Rent	8,873	11,750
Shareholder relations	8,458	5,093
Stock exchange fees	4,282	2,300
Telephone	6,300	7,704
Transfer agent fees	22,077	23,898
Travel	8,824	463
Preproduction costs for the year	<u>381,634</u>	<u>340,675</u>
Less: Write-off of current year preproduction costs	<u>(381,634)</u>	<u>(340,675)</u>
Preproduction costs, end of year	\$ <u><u>–</u></u>	\$ <u><u>–</u></u>

**Flag Resources (1985) Limited/
Les Ressources Flag (1985) Ltee**

Statement of Operations and Deficit

	Year Ended December 31	
	<u>1994</u>	<u>1993</u>
Loss on sale of shares of a related company	\$ 30,919	\$ 83,621
Write-off of preproduction costs	381,634	340,675
Write-down of mineral interests	4,238,529	–
Write-down of investment in related company	<u>115,619</u>	<u>–</u>
Loss for the year*	4,766,701	424,296
Deficit, beginning of year	<u>3,790,343</u>	<u>3,366,047</u>
Deficit, end of year	\$ <u><u>8,557,044</u></u>	\$ <u><u>3,790,343</u></u>
*Loss per share	\$ <u><u>0.55</u></u>	\$ <u><u>0.06</u></u>

**Flag Resources (1985) Limited/
Les Ressources Flag (1985) Ltee**

Statement of Changes in Financial Position

	Year Ended December 31	
	<u>1994</u>	<u>1993</u>
Operations:		
Loss for the year	\$ (4,766,701)	\$ (424,296)
Add: Items not involving a current cash flow		
Depreciation	975	975
Loss on sale of shares of a related company	30,919	83,621
Write-down of investment in related company	115,619	-
Write-down of mineral interests	4,238,529	-
	<u>(380,659)</u>	<u>(339,700)</u>
Decrease (increase) in non-cash working capital	56,732	(12,613)
Cash used in operations	<u>(323,927)</u>	<u>(352,313)</u>
Financing:		
Proceeds on issue of share capital	367,477	373,170
Advances from Cooksville Steel Limited	253,207	232,519
Cash provided by financing	<u>620,684</u>	<u>605,689</u>
Investing:		
Exploration and development expenditures	(217,851)	(191,586)
Purchase of fixed asset	(601)	-
Proceeds on sale of shares of a related company	35,690	86,036
Investments in related company	(232,217)	(165,930)
Repayment of advances to related company	133,744	19,121
Cash used in investing	<u>(281,235)</u>	<u>(252,359)</u>
Increase in cash	15,522	1,017
Cash, beginning of year	<u>343</u>	<u>(674)</u>
Cash, end of year	\$ <u>15,865</u>	\$ <u>343</u>

Flag Resources (1985) Limited/ Les Ressources Flag (1985) Ltee

Notes To Financial Statements December 31, 1994

1. Continuity of operations – going concern:

These financial statements have been prepared on the basis that the Company is a going concern and accordingly reflect no adjustments relating to the recoverability and reclassification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in business.

As at December 31, 1994, the Company has a substantial deficit and working capital deficiency. Its ability to continue as a going concern is dependent upon its ability to generate sufficient funds through future operations or to make other financing arrangements to meet its obligations.

2. Summary of significant accounting policies:

(a) Mineral interests

The activities of the Company are in the exploratory stage of developing mineral and resource interests and all acquisition, exploration and development costs, less income, have been deferred since January 1, 1976. The costs of mineral interests are written-off when the properties are no longer being developed. Preproduction costs are written-off in the year incurred.

(b) Government assistance

The Company accounts for benefits under government assistance programs when funds are received or receivable.

(c) Investments

Investments are carried at cost. A write-down is recorded if, in management's opinion, there has been a permanent impairment in the carried value of the investment.

3. Investment in and advances to related companies:

(a) Investments

	<u>1994</u>	<u>1993</u>
Golden Briar Mines Limited, 1,300,918 (1993 – 268,101) shares, at cost, representing 8% of the issued voting shares at December 31, 1994	\$ 78,055	\$ 28,066
Dubisson Explorations Limited, 229,575 shares, representing 20% of issued voting shares, at nominal value	\$ <u>1</u> <u>78,056</u>	\$ <u>1</u> <u>28,067</u>

The market value of the Golden Briar Mines Limited shares is \$65,046 at June 13, 1995.

Flag Resources (1985) Limited/ Les Ressources Flag (1985) Ltee

Notes To Financial Statements December 31, 1994

3. Investment in and advances to related companies (cont'd):

(b) Advances

The advances are non interest bearing and unsecured. The balance consists of advances made in the 1994 fiscal year.

4. Mineral interests:

The Company has interests in mineral properties which it is in the process of exploring and determining whether they contain reserves which are economically recoverable. The recoverability of expenditures on mining interests is dependent upon the existence of economically recoverable ore, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production.

During the year, acquisitions and exploration and development costs relating to areas no longer being developed were written down by \$4,238,529 to \$1.

5. Bank loan:

The bank loan bears interest at prime plus two percent and is payable on demand. The loan is secured by shares of the Company held by Golden Briar Mines Limited, a related party.

6. Loans payable:

These loans are non-interest bearing, have no fixed terms of repayment but are expected to be repaid in 1995.

7. Due to Cooksville Steel Limited:

	1994	1993
Convertible debenture, bearing interest at 15%, convertible to common shares at \$1.00 per share	\$ 25,000	\$ 25,000
Convertible debenture, bearing interest at 14%, with up to \$715,000 convertible at \$0.40 per share	815,000	815,000
Note payable, bearing interest at 15%	42,699	42,699
Accrued interest on debentures and note payable	1,105,725	852,518
Advances	764,303	764,303
	<u>\$ 2,752,727</u>	<u>\$ 2,499,520</u>

Although these amounts are currently payable, Cooksville Steel Limited has indicated that it will not demand payment in 1995.

Flag Resources (1985) Limited/ Les Ressources Flag (1985) Ltee

Notes To Financial Statements December 31, 1994

8. Share capital:

Authorized –

Unlimited Class "A" common shares

2,000,000 first preference shares with a stated value of \$10 per share

(a) Changes in the outstanding common shares account are summarized below:

	Year Ended December 31			
	1994		1993	
	Number of shares	Amount	Number of shares	Amount
Beginning of year	8,004,725	\$ 5,854,525	6,663,935	\$ 5,577,080
Private placement	386,500	130,295	696,500	169,500
Warrants and options exercised	277,500	78,525	–	–
Flow through shares	638,700	87,269	644,290	107,945
Share issue costs	–	(6,000)	–	–
End of year	<u>9,307,425</u>	<u>\$ 6,144,614</u>	<u>8,004,725</u>	<u>\$ 5,854,525</u>

The flow through shares were issued for a total cash consideration of \$199,220. Deferred income taxes on the flow through of the costs (\$77,388) and government incentive payments payable to shareholders (\$34,563) have been applied against this amount.

(b) Options to purchase common shares outstanding as at December 31, 1994 are as follows:

<u>Date granted</u>	<u>Expiry date</u>	<u>Granted to</u>	<u>Number of shares</u>	<u>Exercise price per share (\$)</u>
Aug. 01, 1990	July 12, 1995	Director	25,000	0.30
Aug. 01, 1990	July 12, 1995	Director	10,000	0.30
Aug. 01, 1990	July 12, 1995	Director	10,000	0.30
Feb. 25, 1994	Apr. 13, 1996	Director	75,000	0.60
Oct. 01, 1992	Oct. 01, 1995	Director	35,000	0.60
Mar. 15, 1993	Mar. 15, 1997	Third party	20,000	0.60
Dec. 17, 1993	Dec. 17, 1995	Directors	180,000	1.00
Jan. 06, 1994	Jan. 06, 1996	Third party	35,000	0.60
Nov. 28, 1994	Nov. 28, 1996	Director	50,000	0.60
Dec. 16, 1994	Dec. 16, 1996	Director	50,000	0.60
Dec. 16, 1994	Dec. 16, 1996	Director	125,000	0.60
			<u>615,000</u>	

Flag Resources (1985) Limited/ Les Ressources Flag (1985) Ltee

Notes To Financial Statements December 31, 1994

8. Share capital (cont'd):

(c) Warrants to purchase common shares, outstanding as at December 31, 1994, are as follows:

<u>Date granted</u>	<u>Expiry date</u>	<u>Granted to</u>	<u>Number of shares</u>	<u>Exercise price per share (\$)</u>
Oct. 02, 1991	Oct. 02, 1996	Director	135,000	0.70
Mar. 01, 1993	Mar. 01, 1998	Third party	67,044	0.50
Mar. 30, 1993	Mar. 30, 1997	Third party	39,500	0.50
Apr. 26, 1993	Apr. 26, 1997	Third party	28,500	0.50
June 22, 1993	June 15, 1995	Third party	33,500	0.50
May 09, 1994	May 09, 1995	Director	16,666	0.50
May 09, 1994	May 09, 1995	Third party	241,666	0.50
June 20, 1994	June 20, 1995	Third party	66,668	0.50
July 08, 1994	July 08, 1995	Director	13,500	0.40
July 08, 1994	July 08, 1995	Third party	98,500	0.40
July 22, 1994	July 22, 1995	Director	14,000	0.40
July 22, 1994	July 22, 1995	Third party	10,000	0.40
Aug. 24, 1994	Aug. 24, 1996	Third party	33,500	0.50
Aug. 26, 1994	Aug. 26, 1996	Third party	34,500	0.60
Oct. 18, 1994	Oct. 18, 1996	Third party	6,000	0.50
Oct. 25, 1994	Oct. 25, 1996	Third party	20,000	0.50
Oct. 31, 1994	Oct. 31, 1996	Third party	50,000	0.45
			<u>908,544</u>	

(d) Subsequent to year end, the Company agreed to issue an additional 270,000 shares (on a flow through basis) for cash consideration of \$96,500. The following warrants were attached to these shares:

<u>Date granted</u>	<u>Expiry date</u>	<u>Granted to</u>	<u>Number of shares</u>	<u>Exercise price per share (\$)</u>
Jan. 04, 1995	Jan. 04, 1996	Third party	12,500	0.50
Feb. 21, 1995	Feb. 21, 1997	Third parties	43,000	0.55
Feb. 22, 1995	Feb. 22, 1997	Third party	12,500	0.55
Feb. 28, 1995	Feb. 28, 1997	Third party	50,000	0.50
Mar. 25, 1995	Mar. 25, 1996	Third party	17,000	0.50
Apr. 13, 1995	Apr. 13, 1997	Third party	30,000	0.55
May 02, 1995	May 02, 1997	Third parties	105,000	0.55
			<u>270,000</u>	

Flag Resources (1985) Limited/ Les Ressources Flag (1985) Ltee

Notes To Financial Statements December 31, 1994

8. Share capital (cont'd):

(d) Subsequent to year end (cont'd):

Options to purchase 20,000 shares at \$0.30 per share were exercised, and the following options were issued:

<u>Date granted</u>	<u>Expiry date</u>	<u>Granted to</u>	<u>Number of shares</u>	<u>Exercise price per share (\$)</u>
Mar. 06, 1995	Mar. 06, 1997	Director	50,000	0.60
May 12, 1995	May 12, 1997	Director	100,000	0.75

In addition, 5,500 shares were issued (at \$0.40 per share) as payment for a finder's fee.

9. Related party transactions:

The Company and Golden Briar Mines Limited are related through interlocking directorships and cross-shareholdings. Details of transactions between the two companies and their common investments are more fully disclosed in Note 3 to the financial statements.

As a result of the Company's economic dependance on Cooksville Steel Limited, it is able to exercise significant influence over the operations of the Company and as such, it is considered to be a related party. Details of the transactions between the Company and Cooksville Steel Limited are more fully disclosed in Note 7 to these financial statements.

During the year, the Company purchased an 80% interest in certain mineral rights from a director for \$1. The director continues to hold a 5% net carried interest in the property. The remaining 20% interest is owned by directors of the Company. The Company has the option to purchase this remaining percentage at its market value.

10. Income taxes:

The tax cost base of mineral interests and fixed assets exceeds the net book value of these assets by a cumulative amount of approximately \$4,175,000.

Non-capital losses carried forward for income tax purposes amount to approximately \$199,000 and expire in various years to 2001. Net capital losses carried forward for income tax purposes amount to approximately \$812,000. These losses may be carried forward indefinitely but may only be applied against taxable capital gains realized in future years.

The potential future benefit of these items has not been recognized in these financial statements.

11. Remuneration of officers and directors:

The aggregate remuneration paid or payable in the year to directors and senior officers, as defined in the Alberta Business Corporations Act amounted to \$86,304 (1993 - \$30,315).

**Flag Resources (1985) Limited/
Les Ressources Flag (1985) Ltee**

**Notes To Financial Statements
December 31, 1994**

12. Commitments:

- (a) The Company entered into an agreement wherein they were granted an option to acquire certain mining claims. The option grants the Company exclusive rights to acquire 100% interest in, and rights to explore and develop, the claims subject to meeting the following commitments:

\$25,000 payable on or before June 30, 1992
\$25,000 payable on or before June 30, 1993
\$25,000 payable on or before June 30, 1994

The owner of the claims is entitled to the greater of a net profits royalty of 10% of profits and 2% of yearly gross revenue. The Company has the option to buy this out for \$1,000,000. The payments due on June 30, 1992, 1993 and 1994 have not been made. The Company is currently renegotiating this agreement.

- (b) Pursuant to the Mining Act Regulations of the Ministry of Northern Development and Mines of Ontario, the Company is required to expend certain amounts per year on each mining claim. The required expenditure could approximate \$92,000 per year.
- (c) The board of directors approved a loan of \$225,000 to a director for the purchase of 300,000 shares (at \$0.75 per share) of the Company. The loan may be obtained at any time up to October 1996.

FLAG RESOURCES (1985) LIMITED
LES RESSOURCES (1985) FLAG LIMITEE
STATEMENT OF CHANGES IN FINANCIAL POSITION
(UNAUDITED)

	THREE MONTHS ENDED	
	M A R C H	3 1
	1995	1994
	\$	\$
Operating Activities:		
Preproduction Costs	(89091)	(83523)
Net Income(Loss) For the Period	(17107)	(4384)
Add(Deduct) :		
Depreciation	244	244
Loss(Gain) on Sale of Investments	17107	4384
	<hr/>	<hr/>
To Operations:	(89067)	(83279)
Decrease(Increase) in Non-Cash Working Capital	59420	54205
	<hr/>	<hr/>
Cash Used in Operating Activities	(29647)	(29074)
	<hr/>	<hr/>
Financing Activities:		
Advances from a Shareholder	-	-
Proceeds from Issuance of Shares	54451	4000
Payment of Long Term Debt	-	-
Payment of Bank Loan	-	-
	<hr/>	<hr/>
Cash Provided by Financing Activities	54451	4000
	<hr/>	<hr/>
Investing Activities:		
Purchase of Flag shares	(25)	-
Exploration of Mineral Interests	(66789)	(22634)
Proceeds from Sale of Shares of Related Company	10529	11159
Investment in a Related Company	-	(3703)
Advances From(To) A Related Company	16361	43827
Purchase-Fixed Assets	-	-
	<hr/>	<hr/>
Cash Provided by(Used In) Investment Activities	(39924)	28649
Increase(Decrease) In Cash	(15120)	3575
	<hr/>	<hr/>
Cash(Deficiency) , Beginning of Period	16075	343
	<hr/>	<hr/>
Cash(Deficiency) , End of Period	955	3918
	<hr/>	<hr/>

FLAG RESOURCES (1985) LIMITED
LES RESOURCES FLAG (1985) LIMITEE
STATEMENT OF PREPRODUCTION COSTS
(UNAUDITED)

	THREE MONTHS ENDED	
	M A R C H	3 1
	1995	1994
	\$	\$
Advertising	750	2601
Automobile	211	78
Business Tax and Insurance	2973	-
Interest and Bank Charges	433	326
Interest-Long Term	63528	59880
Management fees	6223	6781
Office, Postage and Stationery	328	913
Professional Fees	2225	2017
Rent-Premises	1884	2929
Salaries and Employee Benefits	-	-
Shareholder Relations	181	487
Stock Exchange Fees	1000	1000
Telephone and Fax	1483	1541
Transfer Agent Fees	7478	3917
Travel	-	541
Miscellaneous	150	268
Depreciation	244	244
Administration	-	-

89091

83523

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LESS: WRITE OFF OF CURRENT PERIOD
PREPRODUCTION COSTS

89091

83523

FLAG RESOURCES (1985) LIMITED/L'ES RESSOURCES (1985) LIMITEE
STATEMENT OF CHANGES IN FINANCIAL POSITION
(UNAUDITED)

	Six Months Ended	
	J U N E 3 0	
	1995	1994
Operating Activities:		
Preproduction Costs	(184111)	(173112)
Net Income(Loss) For the Period	(89512)	(18069)
Add(Deduct):		
Depreciation	487	487
Loss(Gain) on Sale of Investments	89512	18069
To Operations	(183624)	(172625)
Decrease(Increase) in Non-Cash Working Capital	129949	101043
Cash Used in Operating Activities	(53675)	(71582)
Financing Activities:		
Advances from a Shareholder	-	-
Proceeds from Issuance of Shares	101286	106820
Payment of Long Term Debt	-	-
Payment of Bank Loan	-	(549)
Payment of OMIP Refunds	(34050)	-
Cash Provided by Financing Activities	67236	106271
Investing Activities:		
Purchase of Flag shares	-	-
Exploration of Mineral Interests	(101913)	(95595)
Proceeds From Sale of Shares of a Related Company	56846	23702
Investment in a Related Company	(465)	(3703)
Purchase of Fixed Assest	-	-
Advances from(to) a Related Company	14040	39048
Cash Provided by (used in) Investing Activities	(31492)	(36548)
Increase(Decrease) in Cash	(17931)	(1859)
Cash (Deficiency), Beginning of Period	16075	343
	\$	\$
Cash (Deficiency), End of Period	(1856)	(1516)

FLAG RESOURCES (1985) LIMITED/LES RESOURCES FLAG (1985) LIMITEE
 STATEMENT OF PREPRODUCTION COSTS
 (UNAUDITED)

Six Months Ended

J U N E 30th

	1995	1994
	\$	\$
Advertising	750	3314
Automobile	211	175
Business Tax and Licence	1043	1052
Interest and Bank Charges	813	578
Interest-Long term	127056	119760
Management fees	19922	15766
Office, Postage and Stationery	615	1875
Professional Fees	4669	4242
Rent-Premises	4098	6191
Salaries and Employee Benefits	-	-
Shareholder Relations	247	2603
Stock Exchange Fees	1231	1682
Telephone and Fax	3162	2974
Transfer Agent Fees	13362	9067
Travel	-	2662
Miscellaneous	499	684
Depreciation	487	487
Administration	-	-
Insurance	5946	-

\$	\$
184111	173112

Less: Write Off of Current Period
 Preproduction Costs

184111	173112
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FLAG RESOURCES (1985) LIMITED
STATEMENT OF CHANGES IN FINANCIAL POSITION
(UNAUDITED)

NINE MONTHS ENDED
S E P T E M B E R 3 0

1995 1994
\$ \$

Operating Activities:

Preproduction Costs	(274087)	(271715)
Net Income (Loss) for the period	(97814)	(18069)
Add (Deduct) :		
Depreciation	731	731
Loss (Gain) on Sale of Investments	97814	18069
To Operations	(273356)	(270984)
Decrease (Increase) in Non-Cash Working Capital	194023	170978
Cash Used in Operating Activities	(79333)	(100006)

Financing Activities:

Advances From A Shareholder	-	-
Proceeds From Issuance of Shares	170887	220130
Payment of Long Term Debt	-	-
Payment of Bank Loan	-	(549)
Payment of OMIP Refunds	(34050)	-
Cash Provided By Financing Activities	136837	219581

Investing Activities:

Exploration of Mineral Interests	(157292)	(184322)
Proceeds From Sale of Shares of a Related Company	66733	23702
Investment in A Related Company	(465)	(3703)
Purchase Fixed Assets	-	(600)
Advances From (To) A Related Company	10574	46389
Cash Provided By (Used In) Investing Activities	(79520)	(118534)
Increase (Decrease) in Cash	(22016)	1041
Cash (Deficiency), Beginning of Period	16075	343
Cash (Deficiency), End of Period	(5941)	1384

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FLAG RESOURCES (1985) LIMITED
STATEMENT OF PREPRODUCTION COSTS
(UNAUDITED)

NINE MONTHS ENDED

S E P T E M B E R 3 0

	1995	1994
	\$	\$
Advertising	750	6094
Automobile	632	631
Business Tax and Licenses	1043	1052
Interest and Bank Charges	1377	992
Interest - Long Term	190584	183288
Management Fees	25376	29382
Office, Postage and Stationery	1057	2430
Professional Fees	7126	6492
Rent-Premises	7029	7849
Salaries and Employee Benefits	-	-
Shareholder Relations	601	3009
Stock Exchange Fees	1691	4282
Telephone and Fax	4668	4661
Transfer Agent Fees	18888	15057
Travel	2210	4677
Miscellaneous	1405	1088
Depreciation	731	731
Administration	-	-
Insurance	8919	-
	<hr/>	<hr/>
	\$274087	\$271715
Less: Write-off of Current Period		
Preproduction Costs	274087	271715
	-	-
	<hr/> <hr/>	<hr/> <hr/>

